Microfinance organization
Arnur Credit LLP

Financial statements

For the year ended 31 December 2020

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MICROFINANCE ORGANIZATION ARNUR CREDIT LLP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management of "Microfinance organization "Arnur Credit" LLP (hereinafter – the "Company") is responsible for the preparation of the financial statements, that fairly present the financial position of the Company as at 31 December 2020 and the results of its operations, changes in equity and cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards (hereinafter - "IFRS").

In preparing the financial statements management is responsible for:

- selecting of proper accounting principles and its consistent application;
- presenting information, including accounting policies, in a manner that provides relevance, reliability, comparability and understandability of such information;
- using of reasonable and appropriate estimates and assumptions;
- providing additional disclosures when compliance with the requirements of IFRS is insufficient for users of the financial statements to understand the impact of particular transactions, as well as other events and conditions on the financial position and financial results of the Company's operation; and
- assessment of the Company's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining the effective and reliable functionality of the internal control system;
- maintaining adequate accounting system which allows the preparation of information about the Company financial position at any time with reasonable accuracy, and to ensure compliance of the financial statements with IFRS;
- maintaining accounting records in accordance with the legislation of the Republic of Kazakhstan;
- adopting measures within its competence to safeguard assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2020 were approved by the management of the Company on 31 March 2021.

Chairwoman of the Management Board — Kurbanaliyeva R.N.

Chief Accountant — Kadyrbayeva A.E.

31 March 2021
Shymkent, Kazakhstan

Grant Thornton

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INDEPENDENT AUDITORS' REPORT

To the Founders and Management of the Microfinance organization Arnur Credit LLP

Opinion

We have audited the financial statements of Microfinance organization Arnur Credit LLP (hereinafter – "the Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2020.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

№ 122

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during audit of Microfinance organization Arnur Credit LLP.

Grant Thornton LLP

Arman Chingilbayev

Engagement Partner

Certified Auditor of the Republic of Kazakhstan
Certificate #MF–0000487 on October 12, 1999
The Republic of Kazakhstan

Yerzhan Dossymbekov

General Director
Grant Thornton LLP

State license for providing audit services on the territory of the Republic of Kazakhstan #18015053, issued by the internal state audit Committee of the Ministry of Finance of the Republic of Kazakhstan on August 3, 2018 (date of initial issue - July 27, 2011).

31 March 2021
Almaty, Kazakhstan

MICROFINANCE ORGANIZATION ARNUR CREDIT LLP

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

In thousands of tenge	Notes	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	6	935,465	402,651
Amounts due from credit institutions	7	1,718,039	1,908,721
Financial assets at fair value through profit or loss	8	409,895	5,210
Loans to customers	9, 22	16,009,215	16,394,814
Corporate income tax assets		51,156	588
Property and equipment and intangible assets	10	1,004,774	871,415
Investment property	11	217,171	191,854
Other assets		108,834	49,509
TOTAL ASSETS		**20,454,549**	**19,824,762**
LIABILITIES AND EQUITY			
Liabilities			
Borrowings from third parties	12	13,795,886	14,351,745
Deferred income tax liability	13	67,031	94,791
Other liabilities		123,526	133,449
TOTAL LIABILITIES		**13,986,443**	**14,579,985**
Equity			
Charter capital	14	436,364	436,364
Additional paid-in capital		260,182	260,182
Property revaluation reserve		237,974	161,258
Retained earnings		5,533,586	4,386,973
TOTAL EQUITY		**6,468,106**	**5,244,777**
TOTAL LIABILITIES AND EQUITY		**20,454,549**	**19,824,762**

Accompanying notes on pages 6 to 51 are an integral part of these financial statements.

Chairwoman of the Management Board

Kurbanaliyeva R.N.

Chief Accountant

Kadyrbayeva A.E.

31 March 2021
Shymkent, Kazakhstan

MICROFINANCE ORGANIZATION ARNUR CREDIT LLP

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

In thousands of tenge	**Notes**	**2020**	**2019**
Interest income	15, 22	5,879,796	5,203,958
Interest expense	15	(2,692,879)	(2,345,363)
Net interest income before credit loss expense		**3,186,917**	**2,858,595**
Expected credit loss expenses	17	(772,102)	(228,469)
Net interest income		**2,414,815**	**2,630,126**
Net gain from operations with financial assets at fair value through profit or loss		1,236	1,212
Rent income	11	25,143	21,826
Other operating income		30,859	4,802
Net non-interest income		**57,238**	**27,840**
Personnel expenses	16	(701,064)	(657,484)
Depreciation of property and equipment and amortization of intangible assets	10	(26,959)	(20,059)
Net gain from foreign exchange operations		18,877	28,315
Other operating expenses	16	(449,061)	(463,402)
Other (expenses)/income, net		(11,509)	1,471
Operating expenses		**(1,169,716)**	**(1,111,159)**
Profit before corporate income tax expense		**1,302,337**	**1,546,807**
Corporate income tax expenses	13	(181,695)	(288,497)
Net income		**1,120,642**	**1,258,310**
Other comprehensive income:			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of land and building (less deferred corporate income tax – 14,245 thousand tenge)		102,687	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		*102,687*	–
Total other comprehensive income for the year		**102,687**	–
Total comprehensive income for the year		**1,223,329**	**1,258,310**

Accompanying notes on pages 6 to 51 are an integral part of these financial statements.

Chairwoman of the Management Board — Kurbanaliyeva R.N.

Chief Accountant — Kadyrbayeva A.E.

31 March 2021
Shymkent, Kazakhstan

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

In thousands of tenge	Charter capital	Additional paid-in capital	Property revaluation reserve	Retained earnings	Total equity
As at 31 December 2018	**436,364**	**260,182**	**165,728**	**3,413,727**	**4,276,001**
Net income for the year	–	–	–	1,258,310	**1,258,310**
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	**1,258,310**	**1,258,310**
Dividend payment (Note 14)	–	–	–	(289,534)	**(289,534)**
Amortisation of property revaluation reserve	–	–	(4,470)	4,470	–
As at 31 December 2019	**436,364**	**260,182**	**161,258**	**4,386,973**	**5,244,777**
Net income for the year	–	–	–	1,120,642	**1,120,642**
Other comprehensive income	–	–	102,687	–	**102,687**
Total comprehensive income			**102,687**	**1,120,642**	**1,223,329**
Disposal of property and equipment	–	–	(21,801)	21,801	–
Amortisation of property revaluation reserve	–	–	(4,170)	4,170	–
As at 31 December 2020	**436,364**	**260,182**	**237,974**	**5,533,586**	**6,468,106**

Accompanying notes on pages 6 to 51 are an integral part of these financial statements.

Chairwoman of the Management Board — Kurbanaliyeva R.N.

Chief Accountant — Kadyrbayeva A.E.

31 March 2021
Shymkent, Kazakhstan

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

In thousands of tenge	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before corporate income tax expense		1,302,337	1,546,807
Adjustments for:			
Depreciation of property and equipment and amortization of intangible assets	10	26,959	20,059
Provisions for expected credit losses	17	772,102	228,469
Provision for unused vacation		24,186	21,044
Loss from disposal of property and equipment		8,061	–
Unrealised gain from foreign exchange operations		(18,877)	(28,315)
Gain from operations with financial assets at fair value through profit or loss		(1,236)	(1,212)
Net finance costs recognised in profit or loss		(3,186,917)	(2,858,595)
Loss from impairment of non-financial assets		14,928	–
		(1,058,457)	**(1,071,743)**
Movements in working capital:			
Changes in amounts due from credit institutions		170,536	(1,618,583)
Changes in loans to customers		(23,531)	(4,258,888)
Changes in other assets		(59,325)	(10,704)
Changes in other liabilities		(34,109)	(62,518)
Cash used in operating activities		**(1,004,886)**	**(7,022,436)**
Interest received		5,536,983	4,896,792
Interest paid		(2,737,111)	(1,877,162)
Corporate income tax paid		(274,268)	(274,268)
Net cash from /(used in) operating activities		**1,520,718**	**(4,277,074)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of financial assets at fair value through profit or loss		(404,989)	–
Purchase of property and equipment	10	(120,332)	(416,849)
Proceeds from sale of property and equipment		30,180	4,425
Net cash used in investing activities		**(495,141)**	**(412,424)**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

In thousands of tenge	Notes	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of borrowings from third parties	12	4,428,619	8,052,407
Repayment of borrowings from third parties	12	(4,939,475)	(4,112,822)
Dividends paid	14	–	(289,534)
Cash (used in)/ generated from financing activities		**(510,856)**	**3,650,051**
Net increase/ (decrease) in cash and cash equivalents		**514,721**	**(1,039,447)**
(Accrual)/ recovery of provisions for expected credit losses on cash and cash equivalents	6	(13)	376
Effect of exchange rate changes on cash and cash equivalents		18,106	–
Cash and cash equivalents at the beginning of the year	6	402,651	1,441,722
Cash and cash equivalents at the end of the year	6	**935,465**	**402,651**

In 2019 the Company performed transfer of buildings from property and equipment into investment property in the amount of 68,988 thousand tenge (Note 11).

Accompanying notes on pages 6 to 51 are an integral part of these financial statements.

Chairwoman of the Management Board — Kurbanaliyeva R.N.

Chief Accountant — Kadyrbayeva A.E.

31 March 2021
Shymkent, Kazakhstan

1. GENERAL INFORMATION

“Microfinance organization “Arnur Credit” LLP (hereinafter “the Company”) was founded in 2004 in accordance with the legislation of the Republic of Kazakhstan. The Company operates on the basis of a certificate of state re-registration of a microfinance organization with a registration number 1108–1958–21–LLP/IU issued by the Department of justice of Al-Farabi region of Shymkent city on 9 July 2015.

According to the Law on microfinance activities, “Microfinance organization “Arnur Credit” LLP is a commercial organization. Main activity of the Company is issuance of business and consumer loans to individuals and legal entities.

Since 2015, the Company’s activity is regulated by the National bank of the Republic of Kazakhstan (hereinafter – “the NBRK”). The Company operates on the basis of the Consent of NBRK on the provision of microcredit services to consumers of microfinance organization No. 30–2–13/3642 issued on 25 August 2015.

Microfinance organization lend microcredits in an amount not exceeding 20 thousand monthly calculated indexes prescribed by the Law of state budget on corresponding financial year per borrower (2020: 55,560 thousand tenge; 2019: not exceeding 8 thousand monthly calculated indexes amounting 20,200 thousand tenge).

As at 31 December 2020 and 2019, the following participants owned share of participation in the Company:

Name	**Share, %**	
	31 December 2020	31 December 2019
Frantisek Zajic	**55.00%**	55.00%
Rural Impulse Fund II S.A., SICAV-SIF	**17.50%**	17.50%
ASN-Novib MICROKREDIETFONDS	**17.50%**	17.50%
MicroVest II-A, LP	**10.00%**	10.00%
	100.00%	**100.00%**

As at 31 December 2020 and 2019, the ultimate controlling person is Frantisek Zajic.

The address of the registered office of the Company: 10/2, Baitursunov street, Al–Farabi district, Shymkent, 160011, the Republic of Kazakhstan.

The Company has branches in Almaty, Taldykorgan, Kyzylorda, Taraz cities and Turkestan region.

As at 31 December 2020, the number of employees of the Company was 264 employees (31 December 2019: 258 employees).

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Going concern

These financial statements have been prepared assuming that the Company is a going concern and will continue operation for the foreseeable future.

Management believes that the Company is able to generate enough funds to meet its liabilities. Management of the Company does not have any intention or necessity to liquidate or significantly reduce the size of its business.

2. BASIS OF PREPARATION (CONTINUED)

Functional currency

Items included in the financial statements are measured using the currency of the primary of the economic environment in which the Company operates ("the functional currency"). The functional currency and presentation currency of the financial statements of the Company is the Kazakhstani tenge ("tenge").

These financial statements have been prepared on the historical cost basis except for certain properties and financial instruments.

Exchange rates for the currencies in which the Company transacts were as follows:

	31 December 2020	31 December 2019
Closing exchange rates		
Tenge/1 US Dollar	420.91	382.59
Tenge/1 Euro	516.79	429.00

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The same accounting policies, presentation and methods of computation have been followed the year ended 31 December 2020 as were applied in the preparation of the Company's financial statements for the year ended 31 December 2019, except for the accounting policies and impact of the adoption of the following new and amended Standards and Interpretations:

Amendments to IFRS 3	*"Definitions of a Business"*
Amendments to IFRS 7, IFRS 9 and IAS 39	*"Interest Rate Benchmark Reform"*
Amendments to IAS 1 and IAS 8	*"Determination of Materiality"*
Conceptual Framework	*"Conceptual Framework for Financial Reporting issued" issued on March 29, 2018"*
Amendments to IFRS 16	*"Covid-19 Related Rent Concessions"*

Net interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at fair value through profit or loss (FVTPL) are recognized as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net gain/(loss) from operations with financial assets at fair value through profit or loss'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation includes all interest and other amounts paid or received between parties to the contract that are an integrated part of EIR and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognized in profit or loss at initial recognition.

The interest income/interest expense is calculated by applying the EIR to the gross carrying amount of non–credit impaired financial assets (i.e. at the amortized cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortized cost of financial liabilities. For credit–impaired financial assets, the interest income is calculated by applying the EIR to the amortized cost of the credit–impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets purchased or originated credit–impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. Income and expense is not offset in the statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 3 months, which are not subject to restrictions to its availability.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are included in the statement of financial position. Securities attracted are not recognized in the statement of financial position, except for those sold to third parties, the acquisition and sale of which is accounted for in “net gain / (loss) on financial assets and liabilities at fair value through profit or loss”. Obligations to return them are recorded at fair value as a trade liability. The Company enters into securities repurchase agreements and securities lending transactions for which it receives or transfers collateral in accordance with normal market practice. Under the standard terms of repurchase transactions in Kazakhstan, the recipient of the collateral has the right to sell or repledge the collateral, subject to the return of equivalent securities upon settlement of the transaction.

Financial assets

Financial assets are recognized and derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognized immediately in profit or loss.

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Debt instruments at amortized cost or at FVTOCI

The Company assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Company's business model for managing the asset.

For an asset to be classified and measured at amortized cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is performed at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing at the date of initial application of IFRS 9. The Company determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument–by–instrument basis.

The Company has more than one business model for managing its financial instruments that reflect how the Company manages its financial assets in order to generate cash flows. The Company's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Company considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Company does not reasonably expect to occur, such as so–called 'worst case' or 'stress case' scenarios. The Company takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Company determines whether newly recognized financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Company reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current reporting period, the Company has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognized, the cumulative gain/loss previously recognized in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortized cost or at FVTOCI are subject to impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets at FVTPL

Financial assets at FVTPL are:

- Assets with contractual cash flows that are not SPPI; or/and
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- Assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognized in profit or loss.

Reclassifications

If the business model under which the Company holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Company's financial assets. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Company renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Company has an established forbearance policy, which applies for retail lending.

- When a financial asset is modified the Company assesses whether this modification results in derecognition. In accordance with the Company's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Company considers the qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty. Also it considers the extent of change in interest rates, maturity, covenants.

If these do not clearly indicate a substantial modification, then:

- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest.

If the difference in present value is greater than 10% the Company deems the arrangement is substantially different leading to derecognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Modification and derecognition of financial assets (continued)

In the case where the financial asset is derecognized the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12–month ECL except in the rare occasions where the new loan is considered to be originated credit–impaired asset. This applies only in the case where the fair value of the new loan is recognized at a significant discount to its revised par amount because there remains a high risk of default, which has not been reduced by the modification.

The Company monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Company determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Company's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Company's ability to collect the modified cash flows taking into account the Company's previous experience of similar forbearance action, as well as various behavioral indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

The loss allowance on forborne loans will generally only be measured based on 12–month ECL when there is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Company calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Company measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Company derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Modification and derecognition of financial assets (continued)

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain/loss allocated to it that had been recognized in OCI is recognized in profit or loss. A cumulative gain/loss that had been recognized in OCI is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognized in OCI is not subsequently reclassified to profit or loss.

Impairment

The Company recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents;
- Amounts due from credit institutions;
- Loans to customers.

No impairment loss is recognized on equity investments.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12–month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12–month ECL.

ECLs are a probability–weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Company measures ECL on a collective basis for portfolios of loans that share similar risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR.

Credit–impaired financial assets

A financial asset is 'credit–impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit–impaired financial assets are referred to as Stage 3 assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Credit–impaired financial assets (continued)

Evidence of credit–impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead; the combined effect of several events may have caused financial assets to become credit–impaired. The Company assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit–impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Company considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit–impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit–impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Significant increase in credit risk

The Company monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Company will measure the loss allowance based on lifetime rather than 12–month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward–looking information that is available without undue cost or effort, based on the Company's historical experience and expert credit assessment including forward–looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. The weighting of these different scenarios forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For retail lending forward–looking information includes economic forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Company allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; and
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Significant increase in credit risk (continued)

The PDs used are forward looking and the Company uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Company still considers separately some qualitative factors to assess if credit risk has increased significantly. For retail lending the Company considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Company considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Write–off

Loans and debt securities are written off when the Company has no reasonable expectations of recovering the financial asset (either in its entirety or in a portion of it). This is the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write–off. A write–off constitutes a derecognition event. The Company may apply enforcement activities to financial assets written off. Recoveries resulting from the Company's enforcement activities will result in impairment recovery gains.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL for financial assets measured at amortized cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Collateral

The Company obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Company a claim on these assets for both existing and future customer liabilities.

Borrowings

Borrowings from financial institutions and third parties are classified as liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder. Borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of profit or loss and other comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Property and equipment

Land and buildings are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Construction in progress is carried at cost, less any recognised impairment loss. Cost includes professional fees. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation on revalued buildings is recognised in profit or loss. Amortisation of the revaluation reserve for property and equipment is transferred annually from the property revaluation reserve to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Depreciation on these assets, as well as on other items of property and equipment, starts from the moment the assets are ready for the planned use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight–line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Categories of property and equipment	Useful life
Buildings and constructions	50 years
Transport	14–15 years
Computers	3–4 years
Other	4–14 years

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight–line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property

Investment property is a property held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Leases

The Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases.

Rental income from operating leases is recognised on a straight–line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight–line basis over the lease term.

The Company as lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment test.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of option to purchase the underlying asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases (continued)

The Company as lessee (continued)

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Taxation

Corporate income tax expense represents the sum of the tax currently payable and deferred tax.

Current corporate income tax

The tax currently payable is based on taxable profit for the year. Taxable profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred corporate income tax

Deferred corporate income tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred corporate income tax (continued)

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment property that are measured using the fair value model, the carrying amounts of such property are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred corporate income tax for the year

Current and deferred corporate income tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred corporate income tax are also recognised in other comprehensive income or directly in equity, respectively. Where current or deferred corporate income tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

The Republic of Kazakhstan also has various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the statement of profit or loss and other comprehensive income.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Retirement and other benefit obligations

The Company does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer and employee calculated as a percentage from current gross payments. These expenses are reflected in the accounting period to which the corresponding salary relates. The Company has no post-retirement benefits or other compensated benefits requiring accrual.

Charter capital

Contributions to charter capital are recognised at historical cost.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Company's statement of financial position include "Property revaluation reserve" which comprises revaluation reserve of land and building.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets and contingent liabilities

A contingent asset is not recognised in the statement of financial position, but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Company's accounting policies, the Company management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant use of judgments and estimates are as follows:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

Significant increase of credit risk

As explained in Note 3, ECL are measured as an allowance equal to 12–month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Company takes into account qualitative and quantitative reasonable and supportable forward–looking information.

Establishing the number and relative weightings of forward–looking scenarios for each type of product/market and determining the forward–looking information relevant to each scenario

For loans to customers, the calculation of ECL takes into account the possible estimated effects of changes in macroeconomic parameters on forecasted cash flows, migration of collective loans and collateral coverage. When measuring ECL the Company uses reasonable and supportable forward–looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

Probability of default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll–rates.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, not taking into account cash flows from collateral and integral credit enhancements The Company rarely encounters the sale of collateral; therefore, the Company does not use the expected cash flows from its sale in LGD model. Usually expressed as a percentage of EAD.

Exposure at Default

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Company's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Company uses EAD models that reflect the characteristics of the portfolios.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Impairment of financial assets at amortised cost

The Company regularly reviews its loans and receivables to assess for impairment. The Company recognises a loss allowance for expected credit losses (ECL) on loans and receivables at initial recognition. ECL are measured through a loss allowance at an amount equal to 12–month ECL in profit or loss at initial recognition. ECL may result from those default events on the financial instruments that are possible within 12 months after the reporting date. For measurement the Company uses information that is available without undue cost or effort, such information includes past, actual and reasonable and supportable forecast economic information. In making this assessment, the Management considers information that is based on historical experience of losses on 'credit–impaired' financial assets with evidences of credit–impairment for portfolios of financial assets that share similar risk characteristics.

Credit risk is measured at a fixed rate of ECL that is based on historical data and the probability of default.

The Company considers accounting estimates related to allowance for impairment of loans a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Company uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Write–off of loans to customers

If it is impossible to collect loans issued to customers, including by way of foreclosure on collateral, they are written off against the allowance for expected credit loss. Loans and funds provided are written off after the management of the Company has taken all possible measures to collect the amounts due to the Company, as well as after the sale of the available collateral by the Company. Subsequent recoveries of amounts previously written off are reflected as the decrease of losses for impairment of financial assets in the statement of profit or loss and other comprehensive income in the period of recovery.

Valuation of financial instruments

The Company uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 19 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Company's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Taxation

Kazakhstani tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2020, the Company's management believes that its interpretations of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Company's reported net income.

Property and equipment carried at revalued amounts

Buildings and constructions are measured at revalued amounts. The latest appraisal was in 2020. Details of valuation techniques used are set out in Note 10.

The useful lives of property and equipment

The Company considers the useful lives of property and equipment and intangible assets at the end of each annual reporting period. The assessment of the useful life of the asset is dependent on factors such as: the economic use, the program on repair and maintenance, technological improvements and other business conditions. Management's assessment of the useful lives of property and equipment reflects the relevant information at the date of these financial statements.

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Company has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after January 1, 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 3 – "Definitions of a Business"	The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Company but may impact future periods should the Company enter into any business combinations.
Amendments to IFRS 7, IFRS 9 and IAS 39 – "Interest Rate Benchmark Reform	The amendments to IFRS 7, IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Company as it does not have any interest rate hedge operations.
Amendments to IAS 1 and IAS 8 – "Determination of Materiality"	The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.
"Conceptual Framework for Financial Reporting issued" issued on 29 March 2018	The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. Amendment to this document had no impact on the financial statements of the Company.

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IFRS 16 – "Covid-19 Related Rent Concessions"	On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. This amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company.

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	*"Insurance Contracts"*
Amendments to IAS 1	*"Classification of Liabilities as Current or Non-current"*
Amendments to IFRS 3	*"Reference to the Conceptual Framework""*
Amendments to IFRS 16	*"Property, Plant and Equipment: Proceeds before Intended Use"*
Amendments to IFRS 37	*"Onerous Contracts" – Costs of Fulfilling a Contract*
Amendments to IFRS 1	*"First-time Adoption of International Financial Reporting Standards" - Subsidiary as a first-time adopter*
Amendments to IFRS 9	*"Financial Instruments" – Fees in the "10 per cent" test for derecognition of financial liabilities*
Amendments to IFRS 41	*"Agriculture" - Taxation in fair value measurements*
Amendments to IFRS 7, IFRS 9 and IAS 39, IFRS 7, IFRS 4 and IFRS 16	*"Interest Rate Benchmark Reform - Phase 2"*

5. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

The management does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods, except as noted below:

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 or after that date. Earlier adoption permitted.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39 IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR rate with risk-free interest rates.

These amendments provide for certain exemptions and additional disclosures. The exemptions apply when the risk-free rate is applied instead of the IBOR rate on a financial instrument.

As a practical expedient, a change in the basis for determining contractual cash flows resulting from a base rate reform should be accounted for as a change in the floating interest rate, provided that, in the transition from IBOR to a risk-free rate, the new basis for determining contractual cash flows is economically equivalent to the previous one basis.

The Company will apply this amendment from January 2021.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of the following:

In thousands of tenge	**31 December 2020**	**31 December 2019**
Short–term deposits with Kazakhstani banks	**514,248**	317,068
Current accounts with Kazakhstani banks	**389,212**	80,105
Cash on hand	**26,393**	5,585
"Reverse REPO" receivables	**5,732**	–
	935,585	**402,758**
Minus: allowance for expected credit losses	**(120)**	(107)
Total cash and cash equivalents	**935,465**	**402,651**

As at 31 December 2020 and 2019, all cash and cash equivalents were classified in stage 1. There were no movements between stages during the years ended 31 December 2020 and 2019.

As at 31 December 2020 and 2019, cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**31 December 2020**	**31 December 2019**
Tenge	**728,310**	402,651
US Dollar	**207,155**	–
	935,465	**402,651**

6. CASH AND CASH EQUIVALENTS (CONTINUED)

The Company's exposure to credit and currency risk is described in Note 20.

The movement in the allowance for expected credit losses for the years ended 31 December 2020 and 2019 is presented as follows:

In thousands of tenge	**2020**	2019
Allowance at the beginning of the year	**107**	483
Accrual/ (recovery) of provision (Note 17)	**13**	(376)
Allowance at the end of the year	**120**	**107**

7. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As at 31 December 2020 and 2019 amounts due from credit institutions were presented by deposits:

In thousands of tenge	**31 December 2020**	31 December 2019
Other deposits and balances:		
rated B to BB+	**1,734,911**	1,921,828
Total amounts due from credit institutions	**1,734,911**	**1,921,828**
Minus: allowance for expected credit losses	**(16,872)**	(13,107)
Total amounts due from credit institutions	**1,718,039**	**1,908,721**

As at 31 December 2020 and 2019, accrued interest on amounts due from credit institutions amounted to 5,564 thousand tenge and 21,829 thousand tenge, respectively.

As at 31 December 2020 and 2019, there are no deposits pledged under credits lines or/and other liabilities.

As at 31 December 2020 and 2019, all amounts due from credit institutions were classified in stage 1. There were no movements between different stages during the years ended 31 December 2020 and 2019.

The movement in the allowance for expected credit losses for the years ended 31 December 2020 and 2019 is presented as follows:

In thousands of tenge	**2020**	2019
Allowance at the beginning of the year	**13,107**	2
Accrual of provision (Note 17)	**3,765**	13,105
Allowance at the end of the year	**16,872**	**13,107**

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

In thousands of tenge	**31 December 2020**	**31 December 2019**
Debt instruments		
Government bonds		
Short-term notes of the NBRK	**404,989**	–
Total debt instruments	**404,989**	–
Equity investments		
Shares of Kazakhstani financial institutions	**4,906**	5,210
Total equity instruments	**4,906**	**5,210**
Total financial instruments at fair value through profit or loss	**409,895**	**5,210**

9. LOANS TO CUSTOMERS

Loans to customers include:

In thousands of tenge	31 December 2020	31 December 2019
Loans to customers	**17,392,105**	17,270,283
Less: allowance for expected credit losses	**(1,382,890)**	(875,469)
Total loans to customers	**16,009,215**	**16,394,814**

As at 31 December 2020 and 2019, accrued interest on loans to customers amounted to 616,718 thousand tenge and 307,166 thousand tenge, respectively.

As at 31 December 2020 and 2019, most of the loans to customers are pledged under collateral agreements. The table below summarise the amount of loans to customers before provision for expected credit losses secured by type of collateral, rather than the fair value of the collateral itself:

In thousands of tenge	31 December 2020	31 December 2019
Loans, secured by real estate	**10,775,246**	11,114,940
Loans, secured by movable property	**1,361,861**	836,491
Unsecured loans	**5,254,998**	5,318,852
Total loans to customers	**17,392,105**	**17,270,283**

Most of the loans are given to individuals in the city of Shymkent and Turkestan region of the Republic of Kazakhstan, which represents a significant geographical concentration.

To reduce its credit risk the Company actively uses collateral, represented by vehicles and residential properties as at 31 December 2020 and 2019 in the total amount of 17,959,741 thousand tenge and 17,029,048 thousand tenge, respectively.

The analysis of loans by products is presented below:

In thousands of tenge	31 December 2020	31 December 2019
Agriculture loans	**8,990,993**	8,404,926
Entrepreneurial loans	**7,195,323**	7,132,699
Consumer loans	**1,205,789**	1,732,658
Total loans to customers	**17,392,105**	**17,270,283**

9. LOANS TO CUSTOMERS (CONTINUED)

The tables below analyze information about the significant changes in the gross carrying amount of loans to customers during the period that contributed to changes in the allowance for expected credit losses during the 2020 and 2019 (Note 17):

In thousands of tenge	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2020	**16,737,584**	**114,678**	**418,021**	**17,270,283**
Changes in the gross carrying amount				
Transfer to stage 1	20,083	(9,478)	(10,605)	–
Transfer to stage 2	(369,526)	372,199	(2,673)	–
Transfer to stage 3	(483,735)	(18,960)	502,695	–
Issue of loans	18,334,721	–	–	18,334,721
Interest accrued	4,933,842	1,002,359	12,845	5,949,046
Payments and assets derecognized	(23,053,083)	(847,959)	–	(23,901,042)
Recovery of assets previously written off	–	–	145,294	145,294
Write–offs	–	–	(406,197)	(406,197)
Gross carrying amount as at 31 December 2020	**16,119,886**	**612,839**	**659,380**	**17,392,105**

In thousands of tenge	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2020	**(514,904)**	**(47,774)**	**(312,791)**	**(875,469)**
Transfer to Stage 1	10,543	(3,313)	(7,230)	**–**
Transfer to Stage 2	(17,519)	19,692	(2,173)	**–**
Transfer to Stage 3	(17,783)	(8,460)	26,243	**–**
Remeasurement of ECL	(275,930)	–	–	**(275,930)**
Change in risk models/parameters	–	(201,700)	(435,987)	**(637,687)**
Payments and assets derecognized	105,952	39,341	–	**145,293**
Recoveries of allowances on assets previously written–off	–	–	(145,294)	**(145,294)**
Write–offs	–	–	406,197	**406,197**
As at 31 December 2020	**(709,641)**	**(202,214)**	**(471,035)**	**(1,382,890)**

In thousands of tenge	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2019	**12,220,284**	**107,401**	**471,285**	**12,798,970**
Changes in the gross carrying amount				
Transfer to stage 1	28,515	(4,368)	(24,147)	–
Transfer to stage 2	(63,384)	65,002	(1,618)	–
Transfer to stage 3	(287,562)	(11,190)	298,752	–
Issue of loans	9,547,654	–	–	9,547,654
Payments and assets derecognized	(4,707,923)	(42,167)	(244,240)	(4,994,330)
Recovery of assets previously written off	–	–	171,359	171,359
Write–offs	–	–	(253,370)	(253,370)
Gross carrying amount as at 31 December 2019	**16,737,584**	**114,678**	**418,021**	**17,270,283**

In thousands of tenge	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL as at 1 January 2019	**(330,505)**	**(55,538)**	**(355,697)**	**(741,740)**
Transfer to Stage 1	(15,904)	2,383	13,521	–
Transfer to Stage 2	1,438	(2,649)	1,211	–
Transfer to Stage 3	8,683	4,618	(13,301)	–
Remeasurement of ECL	(238,155)	–	–	(238,155)
Change in risk models/parameters	–	–	(223,293)	(223,293)
Payments and assets derecognized	59,539	3,412	182,757	245,708
Recoveries of allowances on assets previously written–off	–	–	(171,359)	(171,359)
Write–offs	–	–	253,370	253,370
As at 31 December 2019	**(514,904)**	**(47,774)**	**(312,791)**	**(875,469)**

9. LOANS TO CUSTOMERS (CONTINUED)

Deferral of payments due to pandemic and concessional financing

Support for individuals in connection with the introduction of the state of emergency

In accordance with the Decree of the President of the Republic of Kazakhstan No. 285 dated 15 March 2020 and the Procedure for the suspension of payments of principal and remuneration, approved by the Order of the Agency of the Republic of Kazakhstan for the Regulation and Development of the financial market No. 167 dated 6 March 2020, in order to ensure stability in connection with the introduction of state of emergency in the country from 16 March to 15 June 2020 to individuals whose financial condition has worsened, the payment under bank loan agreements has been suspended by granting a deferral of payment of the principal debt and remuneration.

Deferred and unpaid payments on principal and interest in the grace period from 16 March to 15 June 2020 (inclusive) were distributed until the end of the loan term by increasing the loan term in order to reduce the loan burden.

- for borrowers-individuals (category of socially vulnerable groups of the population, recipients of targeted social assistance, unemployed registered) - unpaid payments on the principal debt and remuneration during the grace period were transferred to subsequent months by increasing the loan term without changing monthly payments according to the repayment schedule;
- for loans, the delay in payment of which did not exceed 60 calendar days as of 16 March 2020 - the amount of the overdue principal debt, overdue interest and interest accrued on the overdue principal debt was transferred to the accounts of urgent loan debt and distributed until the end of the loan term with an increase in the term lending.

Commissions and other payments for consideration of an application for suspension of payments and a corresponding change in pledge agreements and other related agreements are not provided.

1. Granting a deferral is carried out on the basis of the borrower's application (in any form containing the reason for the suspension of payments) and submitted to the Company by any available means during the period from 16 March to 15 June 2020 (inclusive). At the same time, it is not required to obtain an application from the borrower according to the list of borrowers-individuals (socially vulnerable segments of the population, recipients of targeted social assistance, registered unemployed), but with informing and obtaining the consent of the borrower in accessible ways, without requiring supporting documents;
2. In case of a positive decision of the authorized body, the deferral is reflected in the accounting system without signing additional agreements with borrowers and without applying commission and other payments to borrowers. Additional agreements with a new repayment schedule are signed with borrowers and participants in the transaction after the cancellation of the state of emergency.

9. LOANS TO CUSTOMERS (CONTINUED)

Deferral of payments due to pandemic and concessional financing

Support for legal entities in connection with the introduction of a state of emergency

In accordance with the Order of the Chairman of the Agency of the Republic of Kazakhstan for the Regulation and Development of the financial market No. 167 dated 26 March 2020 On approval of the Procedure for the suspension of payments of the principal debt and remuneration on loans to the population, small and medium-sized businesses affected by the introduction of the state of emergency and the Procedure for the provision of measures support to small and medium-sized businesses, approved by the Order of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market No. 251 dated 15 June 2020 in order to provide small and medium-sized businesses whose financial condition has deteriorated during the state of emergency and (or) quarantine, additional support measures to support business, implement plans to restore financial condition and prevent cases of overdue debt under microcredit agreements issued for entrepreneurial purposes, provision of deferred payments under microcredit agreements for period sufficient to restore the financial condition and solvency of a small and medium-sized business entity. The grace period for payments is at least 90 calendar days, unless other terms are specified in the application of the small and medium-sized business entity.

The deferral of payments was provided by establishing a new payment schedule in the form of distributing previously deferred payments until the end of the loan term or increasing the loan term for the grace period, if another payment schedule was not provided for by the microcredit agreement or is not specified in the application of the small and medium-sized business entity.

The table below shows the number of client accounts in respect of which government programs are in force as of 31 December 2020:

	Agriculture	Entrepreneurial	Consumers	Total
Deferral of payments				
Number of approved applications	3,846	4,278	1,419	**9,543**

The table below presents the gross carrying amount and associated ECLs by Stage for loans to customers that are subject to deferral payments under government programs:

	Stage 1	Stage 2	Stage 3	Итого
Deferral payments				
Agriculture				
Gross carrying amount	1,322,007	99,148	151,307	**1,572,462**
ECL	(36,141)	(36,375)	(98,873)	**(171,389)**
Entrepreneurial				
Gross carrying amount	2,771,331	451,253	259,886	**3,482,470**
ECL	(268,182)	(148,171)	(177,177)	**(593,530)**
Consumers				
Gross carrying amount	188,582	8,932	35,580	**233,094**
ECL	(6,226)	(3,262)	(24,315)	**(33,803)**

10. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Property and equipment and intangible assets are presented as follows:

In thousands of tenge	Land	Building and constructions	Vehicles	Computers	Other	Intangible assets	Construction in progress	Total
Revalued/historical cost:								
31 December 2018	**42,495**	**557,760**	**11,523**	**20,886**	**33,636**	**8,012**	**–**	**674,312**
Additions	80,000	306,120	9,300	7,474	13,955	–	–	416,849
Transfer to investment property	–	(72,650)	–	–	–	–	–	(72,650)
Disposals	–	–	(7,754)	(2,391)	(2,338)	–	–	(12,483)
31 December 2019	**122,495**	**791,230**	**13,069**	**25,969**	**45,253**	**8,012**	**–**	**1,006,028**
Additions	14,000	–	11,900	1,947	6,773	1,005	84,707	120,332
Internal movement	–	84,707	–	–	–	–	(84,707)	–
Revaluation	206,251	(120,588)	–	–	–	–	–	85,663
Impairment loss	–	(4,933)	–	–	–	–	–	(4,933)
Disposals	(1,662)	(41,450)	(13,069)	–	–	–	–	(56,181)
31 December 2020	**341,084**	**708,966**	**11,900**	**27,916**	**52,026**	**9,017**	**–**	**1,150,909**
Accumulated depreciation:								
31 December 2018	**–**	**98,957**	**4,802**	**6,445**	**11,982**	**4,088**	**–**	**126,274**
Charge	–	9,805	955	5,206	3,229	864	–	20,059
Transfer to investment property		(3,662)	–	–	–	–	–	(3,662)
Disposals	–	–	(3,341)	(2,391)	(2,326)	–	–	(8,058)
31 December 2019	**–**	**105,100**	**2,416**	**9,260**	**12,885**	**4,952**	**–**	**134,613**
Charge	–	15,632	673	5,609	4,154	891	–	26,959
Revaluation	–	2,502	–	–	–	–	–	2,502
Disposals	–	(14,994)	(2,945)	–	–	–	–	(17,939)
31 December 2020	**–**	**108,240**	**144**	**14,869**	**17,039**	**5,843**	**–**	**146,135**
Net book value:								
31 December 2019	**122,495**	**686,130**	**10,653**	**16,709**	**32,368**	**3,060**	**–**	**871,415**
31 December 2020	**341,084**	**600,726**	**11,756**	**13,047**	**34,987**	**3,174**	**–**	**1,004,774**

As a result of revaluation, the Company determined and transferred the amount of land from the amount of building.

10. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

As at 31 December 2020 and 2019, property and equipment were not pledged as collateral under the obligations of the Company.

If the land and buildings of the Company were accounted for at historical cost less impairment and accumulated depreciation for buildings, their carrying amount as at 31 December 2020 would be 686,556 thousand tenge (as at 31 December 2019: 607,053 thousand tenge).

Fair value of the building and land was determined by independent appraiser in November 2020 using the comparative market prices method and cost method, which reflects recent transaction prices for similar buildings and land, and this measurement is included in Level 2 category of the fair value hierarchy.

11. INVESTMENT PROPERTY

Investment property movement is presented as follows:

In thousands of tenge	**2020**	**2019**
As at 1 January	**191,854**	122,866
Revaluation	**33,771**	–
Transferred from property and equipment	**–**	68,988
Impairment loss	**(8,454)**	–
As at 31 December	**217,171**	**191,854**

Investment property includes residential houses, apartments, and offices.

Rental income in the amount of 25,143 thousand tenge and 21,826 thousand tenge is included into the statement of profit or loss and other comprehensive income for 2020 and 2019, respectively.

During 2020, the Company revalued investment property with the involvement of an independent appraiser, which used the method of comparative market prices and the cost method.

As at 31 December 2019 and 2018, for the purpose of disclosure of information on fair value, the Company classified its carrying value of its investment property in the amount of 217,171 thousand tenge and 191,854 thousand tenge in Level 2 of the fair value hierarchy, respectively. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

12. BORROWINGS FROM THIRD PARTIES

Borrowings from third parties are presented as follows:

In thousands of tenge	Currency	Maturity date	Interest rate	31 December 2020	31 December 2019
BlueOrchard Microfinance Fund	Tenge	29.01.2021-23.05.2022	18.67%-25.84%	**1,805,316**	2,020,392
EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT	Tenge	11.10.2021-10.01.2022	15.01%-17.75%	**1,645,705**	1,378,069
Microfinance Enhancement Facility SA, SICAV-SIF (BlueOrchard Pool)	Tenge	07.04.2021-05.07.2022	19.44%-23.08%	**1,222,200**	1,213,514
International Finance Corporation	Tenge	15.12.2022	16.90%	**1,204,916**	–
MicroBuild I.B.V.	Tenge	05.04.2022	18.88%	**1,181,590**	1,177,483
Triodos Investment Management B.V.	Tenge	30.09.2021	20.55%	**1,143,122**	1,125,154
JSC Entrepreneurship Development Fund DAMU	Tenge	01.12.2021-01.11.2027	1.00%-10.53%	**1,041,657**	1,255,138
BANK IM BISTUM ESSEN eG	Tenge	25.04.2022	20.55%	**779,330**	777,567
Microfinance Initiative for Asia MIFA Debt Fund SA	Tenge	29.03.2021-10.09.2022	18.66%-19.44%	**775,441**	1,267,610
INCOFIN INCLUSIVE FINANCE FUND SA, SICAV-RAIF	Tenge	23.09.2022	21.68%	**442,610**	–
agRIF Cooperatief U.A.	Tenge	15.06.2022	23.77%	**441,801**	–
Luxembourg Microfinance and Development Fund	Tenge	11.04.2022-10.01.2023	18.33%-19.88%	**386,275**	332,056
CPP Incofin CVSO	Tenge	09.11.2021	17.16%-19.73%	**327,598**	651,302
responsAbility SICAV (Lux) Financial Inclusion Fund	Tenge	29.06.2020-10.01.2022	17.66%-20.55%	**309,109**	630,954
GLOBAL IMPACT INVESTMENTS SARL	Tenge	26.04.2022	16.67%-27.22%	**292,177**	289,707
responsAbility SICAV(Lux) Mikro- and SME Finance Leaders	Tenge	05.04.2021-10.01.2022	18.11%-20.55%	**192,549**	313,645
Alterfin CVBA	Tenge	09.07.2021-27.08.2021	18.33%-20.56%	**187,978**	375,475
responsAbility SICAV(Lux) Mikro- und KMU-Finanz-Fonds	Tenge	26.02.2021-05.04.2021	17.66%-18.22%	**171,947**	453,237
Symbiotics SICAV (Lux) – SEB Microfinance Fund VII	Tenge	29.05.2022	27.22%	**162,088**	–
Symbiotics-Global Financial Inclusion Fund	Tenge	15.02.2021	18.22%-26.67%	**82,477**	83,935
Finethic S.C.A. SICAV SIF-Microfinance	Tenge	31.12.2020	7.78%-20.56%	**–**	189,086
MCE SOCIAL CAPITAL U.S.	Tenge	30.07.2020	18.07%	**–**	341,727
Symbiotics - SEB III Microfinance Fund	Tenge	15.05.2020	18.22%-18.89%	**–**	165,086
Symbiotics - SEB IV Microfinance Fund	Tenge	28.11.2020	20.56%	**–**	186,068
Symbiotics - SEB V Microfinance Fund	Tenge	23.07.2020	18.22%	**–**	124,540
Total borrowings from third parties				**13,795,886**	**14,351,745**

As at 31 December 2020 and 2019, accrued interest on borrowing from third parties amounted to 510,701 thousand tenge and 591,753 thousand tenge, respectively.

12. BORROWINGS FROM THIRD PARTIES (CONTINUED)

The Company received loans from JSC Entrepreneurship Development Fund DAMU for subsequent financing of micro and small entities at rates 1.00%-10.53% with the maturity in November 2027. Management believes that this loan products are of a special nature and represents a unique segment in the lending market. As a result, loans issued under the terms of the lending product were issued within the framework of the transaction concluded with JSC Entrepreneurship Development Fund DAMU and were provided on terms with a limited maximum level of interest to ultimate borrowers and as such were recorded at fair value at the date of recognition considering specifics of the segment.

Financial covenants

In accordance with the terms of loan agreements, the Company is required to maintain certain financial covenants. The Company's management believes that as at 31 December 2020 and 2019, the Company was in compliance with the terms of the loan agreements.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non–cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

In thousands of tenge				**Non–cash movement**		
	1 January 2020	**Receipt of loans**	**Repayment of principal**	**Change in amortized cost**	**Change in interest accruals**	**31 December 2020**
Borrowings from third parties	**14,351,745**	**4,428,619**	**(4,939,475)**	**36,049**	**(81,052)**	**13,795,886**

In thousands of tenge				Non–cash movement		
	1 January 2019	Receipt of loans	Repayment of principal	Change in amortized cost	Change in interest accruals	31 December 2019
Borrowings from third parties	10,174,213	8,052,407	(4,112,822)	40,823	197,124	14,351,745

13. TAXATION

The Company is subject to corporate income tax at the applicable statutory rate of 20%.

The effective corporate income tax rate differs from the statutory corporate income tax rates. A reconciliation of the corporate income tax expense based on statutory rates with actual is as follows:

In thousands of tenge	**2020**	2019
Current corporate income tax	**(223,700)**	(274,268)
Deferred corporate income tax benefit/ (expense)	**42,005**	(14,229)
Corporate income tax expense	**(181,695)**	**(288,497)**

In thousands of tenge	**2020**	**2019**
Profit before corporate income tax expense	**1,302,337**	1,546,807
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense	**(260,467)**	(309,361)
Permanent differences	**78,772**	20,864
Corporate income tax expense	**(181,695)**	**(288,497)**

13 TAXATION (CONTINUED)

Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available in future against which the deductible temporary difference can be utilised. Deferred tax assets are reduced to the extent that it is probable that appropriate tax benefit will be realised.

Deferred tax calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences comprised of the following:

In thousands of tenge	31 December 2020	Recognised in profit or loss	Recognised in other comprehensive income	31 December 2019	Recognised in profit or loss	31 December 2018
Accrued expenses on unused vacation	**4,837**	**205**	–	4,632	(728)	5,360
Property and equipment and investment property	**(71,868)**	**41,800**	**(14,245)**	(99,423)	(13,501)	(85,922)
Total deferred income tax liabilities, net	**(67,031)**	**42,005**	**(14,245)**	**(94,791)**	**(14,229)**	**(80,562)**

Movement of deferred income tax liabilities:

In thousands of tenge	2020	2019
As at 1 January	**(94,791)**	(80,562)
Deferred income tax benefit/ (expense)	**27,760**	(14,229)
As at 31 December	**(67,031)**	**(94,791)**

In thousands of tenge	31 December 2020	31 December 2019
Deferred income tax assets	**4,837**	4,632
Deferred income tax liabilities	**(71,868)**	(99,423)
Total deferred income tax liabilities, net	**(67,031)**	**(94,791)**

14. CHARTER CAPITAL

As at 31 December 2020 and 2019, ownership was as follows:

In thousands of tenge	31 December 2020	Share, %	31 December 2019	Share, %
Frantisek Zajic	240,000	55.00%	240,000	55.00%
Rural Impulse Fund II S.A., SICAV–SIF	76,364	17.50%	76,364	17.50%
ASN–Novib MICROKREDIETFONDS	76,364	17.50%	76,364	17.50%
MicroVest II–A, LP	43,636	10.00%	43,636	10.00%
Total charter capital	**436,364**	**100.00%**	**436,364**	**100.00%**

In 2020 dividends were neither declared nor paid (2019: for results of 2018 dividends declared and paid in the amount of 289,534 thousand).

15. NET INTEREST INCOME

In thousands of tenge	2020	2019
Interest income comprises:		
Interest income on financial assets recorded at amortised cost:		
Loans to customers	**5,667,219**	4,966,097
Cash and cash equivalents and amounts due from credit institutions	**211,034**	237,861
"Reverse REPO" agreements	**1,543**	–
Total interest income	**5,879,796**	**5,203,958**
Interest expense comprises:		
Interest on financial liabilities recorded at amortised cost:		
Borrowings from third parties	**(2,692,879)**	(2,345,363)
Total interest expense	**(2,692,879)**	**(2,345,363)**
Net interest income before expected credit losses	**3,186,917**	**2,858,595**

16. PERSONNEL EXPENSES AND OTHER OPERATING EXPENSES

Personnel expenses included the following:

In thousands of tenge	2020	2019
Salary and other payments	**648,512**	607,140
Payroll taxes	**52,552**	50,344
Total personnel expenses	**701,064**	**657,484**

Other operating expenses included the following:

In thousands of tenge	2020	2019
Bank services	**65,661**	83,357
Withholding tax	**34,143**	33,329
Losses on disposal of property and equipment	**37,842**	4,425
Professional services	**36,388**	28,194
Security expenses	**32,272**	26,654
Transportation expenses	**31,700**	29,912
Rent	**28,439**	35,119
Provision for unused vacation	**24,186**	21,044
Expenses on cleaning territory	**15,491**	15,046
Communication	**15,306**	14,292
Taxes, other than corporate income tax	**14,727**	21,740
Utilities	**13,744**	11,211
Advertising expenses	**8,801**	10,253
Stationary	**8,331**	12,978
Electricity	**7,990**	7,985
Insurance	**7,067**	4,270
Repair and maintenance	**4,614**	14,967
Charity	**4,593**	7,772
Expenses on message services	**4,468**	7,789
Expenses on First Credit Bureau	**4,365**	6,817
Business trip	**2,838**	12,217
Membership fees	**1,689**	955
State fees	**342**	13,679
Provision for social payments	**–**	1,799
Other	**44,064**	37,598
Total other operating expenses	**449,061**	**463,402**

17. PROVISIONS FOR EXPECTED CREDIT LOSSES

The table below summarizes the expense on ECL for financial assets reflected in the statement of profit or loss for the year ended 31 December 2020:

In thousands of tenge	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	**(13)**	**–**	**–**	**(13)**
Amounts due from credit institutions	**(3,765)**	**–**	**–**	**(3,765)**
Loans to customers	**(169,978)**	**(162,359)**	**(435,987)**	**(768,324)**
Total expenses on expected credit losses	**(173,756)**	**(162,359)**	**(435,987)**	**(772,102)**

In thousands of tenge	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents	376	–	–	**376**
Amounts due from credit institutions	(13,105)	–	–	**(13,105)**
Loans to customers	(178,616)	3,412	(40,536)	**(215,740)**
Total recovery/(expenses) on expected credit losses	**(191,345)**	**3,412**	**(40,536)**	**(228,469)**

18. COMMITMENTS AND CONTINGENCIES

Operating Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Management of the Company is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Company is difficult to estimate.

Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Kazakhstani Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

Support measures were introduced by the Governments of the Republic of Kazakhstan and NBRK for regulation and development of financial market to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, subsidized lending to affected industries and individuals, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Company continues to assess the effect of the pandemic and changed economic conditions on its activities, financial position and financial results.

18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Claims and litigations

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. Management is of opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation

The Company believes that it has paid or accrued all taxes that are applicable. Where legislation concerning the provision of taxes is unclear, the Company has accrued tax liabilities based on management’s best estimate. The Company’s policy is to recognize provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. As at 31 December 2020 and 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Company’s tax, currency and custom positions including questions on transfer pricing, will be sustained.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, as a result of past transactions, may be in excess of the amount expensed to date and accrued at 31 December 2020 and 2019. Although such amounts are possible and may be material, it is the opinion of the Company’s management that these amounts are either not probable, not reasonably determinable, or both.

Insurance

The Company concluded agreements on insurance of civil liability of employer, voluntary insurance of property and obligatory insurance of employees. The Company bears the risk of loss in relation to the uninsured or partially insured assets and operations.

Capital commitments

As at 31 December 2020 and 2019, the Company had no capital commitments.

Investment related commitments

As at 31 December 2020 and 2019, the Company had no investment contracts.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses a hierarchical structure of valuation techniques to determine and disclose the fair value of financial instruments;

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e, as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except the financial instruments detailed in the following table, the management of the Company considers that the carrying amounts of financial assets and financial liabilities, which are not measured at fair value on a recurring basis in the financial statements approximate their fair values.

In thousands of tenge	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Amounts due from credit institutions	1,718,039	1,763,213	1,908,721	1,933,133
Loans to customers	16,009,215	18,697,104	16,394,814	19,062,837
Financial liabilities				
Borrowings from third parties	13,795,886	14,717,914	14,351,745	15,688,985

	Date of measurement	Fair value measurement using			Total
		Quotes in Active markets (Level 1)	Significant Observable inputs (Level 2)	Significant Non observable inputs (Level 3)	
Fair value assets					
Financial assets at fair value through profit or loss	31 December 2020	409,895	–	–	**409,895**
Assets whose fair value is disclosed					
Amounts due from credit	31 December 2020	–	1,763,213	–	**1,763,213**
Loans to customers	31 December 2020	–	18,697,104	–	**18,697,104**

20. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required) (continued)

	Date of measurement	Fair value measurement using			Total
		Quotes in Active markets (Level 1)	Significant Observable inputs (Level 2)	Significant Non observable inputs (Level 3)	
Liability whose fair value is disclosed					
Borrowings from third parties	31 December 2020	–	14,717,914	–	**14,717,914**

	Date of measurement	Fair value measurement using			Total
		Quotes in Active markets (Level 1)	Significant Observable inputs (Level 2)	Significant Non observable inputs (Level 3)	
Fair value assets					
Financial assets at fair value through profit or loss	31 December 2019	5,210	–	–	**5,210**
Assets whose fair value is disclosed					
Amounts due from credit	31 December 2019	–	1,933,133	–	**1,933,133**
Loans to customers	31 December 2019	–	19,062,837	–	**19,062,837**

	Date of measurement	Fair value measurement using			Total
		Quotes in Active markets (Level 1)	Significant Observable inputs (Level 2)	Significant Non observable inputs (Level 3)	
Liability whose fair value is disclosed					
Borrowings from third parties	31 December 2019	–	15,688,985	–	**15,688,985**

The fair values of the financial assets and financial liabilities included in the Level 2 category above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. The fair value of financial assets at fair value through profit or loss, which are represented by shares of a Kazakh financial institution and NBRK notes, was determined based on market prices available on the Kazakhstan Stock Exchange. These financial assets are included in level 1 category.

There were no transfers of financial assets and liabilities between Level 1 and 2 during the years ended 31 December 2020 and 2019.

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets/ financial liabilities	Fair value as at 31 December 2020	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
1) Amounts due from credit institutions (Note 7)	1,763,213	1,933,133	Level 2	Discounted cash flow	Future cash flows in tenge discounted using the market rate obtained from available sources
2) Loans to customers (Note 9)	18,697,104	19,062,837	Level 2	Discounted cash flow	Future cash flows in tenge discounted using the market rate obtained from available sources.
3) Borrowings from third parties (Note 12)	14,717,914	15,688,985	Level 2	Discounted cash flow	Future cash flows in tenge discounted using the market rate obtained from available sources.

20. RISK MANAGEMENT

Introduction

The Company manages risks through a process of ongoing identification, measurement and monitoring, setting risk limits and other measures of internal controls. Process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Treasury Department

The Treasury Department of the Company, together with the Management Board, is responsible for managing the Company's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Company.

Internal Audit

Risk management processes throughout the Company are audited by internal audit, which examines the adequacy of internal control system, conformity of the procedures and the Company's compliance with the procedures. Internal audit discusses its finding of the examinations taken with the Management Board and provides its recommendation to the Board of Directors.

Risk assessment and reporting systems

The Company's risks are measured using a method, which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

20. RISK MANAGEMENT (CONTINUED)

Risk assessment and reporting systems (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Company. These limits reflect the business strategy and market environment of the Company as well as the level of risk that the Company is willing to accept, with additional emphasis on selected segments. In addition, the Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. Information compiled from all the businesses is examined and processed in order to analyse, control and early identify risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Company.

Risk mitigation

As part of its overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecasted transactions.

Credit risk

Credit risk is the risk that the Company will incur a loss because its clients or counterparties failed to discharge their contractual obligations.

Maximum credit risk is limited to carrying amount of financial instruments, except for secured loans, the information on the value of collateral disclosed in Note 9.

Credit quality by types of financial assets

Financial assets are graded according to the current credit rating they have been issued by an international rating agency or in accordance with the Company's internal rating system. The highest possible rating is BBB. Investment grade financial assets have ratings from AAA to B–.

The following table details the credit ratings of financial assets held by the Company, before any allowance for ECL:

In thousands of tenge	BBB	BBB-	BB+	BB	B+	B	B-	Credit rating is not assigned	31 December 2020 Total
Cash and cash equivalents	545	62	50,011	309,058	–	543,409	190	5,797	909,072
Amounts due from credit institutions	–	–	994,336	–	493,603	230,100	–	–	1,718,039
Financial assets at fair value through profit	–	404,989	–	–	–	–	–	–	404,989
Loans to customers	–	–	–	–	–	–	–	16,009,215	16,009,215
Total	545	405,051	1,044,347	309,058	493,603	773,509	190	16,015,012	19,041,315

20. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Credit quality by types of financial assets (continued)

In thousands of tenge	BB+	BB	B+	B	B-	Credit rating is not assigned	31 December 2019 Total
Cash and cash equivalents	9,532	54,920	227,743	795	104,076	–	397,066
Amounts due from credit institutions	200,000	–	1,708,721	–	–	–	1,908,721
Loans to customers	–	–	–	–	–	16,394,814	16,394,814
Total	**209,532**	**54,920**	**1,936,464**	**795**	**104,076**	**16,394,814**	**18,700,601**

It is the Company's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

Analysis by credit quality of loans to customers outstanding that are collectively assessed for impairment as at 31 December 2020 is as follows:

As at 31 December 2020	Gross loans	Allowance for expected credit losses	Net loans
Loans to customers, retail			
Not past due	10,814,178	(366,787)	10,447,391
Overdue:			
up to 30 days	755,222	(86,592)	668,630
31 to 60 days	93,176	(23,648)	69,528
61 to 90 days	192,848	(77,692)	115,156
91 to 180 days	219,814	(150,032)	69,782
over 180 days	98,506	(68,816)	29,690
Total collectively assessed loans, retail	**12,173,744**	**(773,567)**	**11,400,177**
Loans to customers, small and medium sized entities			
Not past due	3,918,456	(263,886)	3,654,570
Overdue:			
up to 30 days	781,076	(106,756)	674,320
31 to 60 days	135,925	(37,834)	98,091
61 to 90 days	310,972	(139,941)	171,031
91 to 180 days	49,007	(37,981)	11,026
over 180 days	22,925	(22,925)	–
Total collectively assessed loans, small and medium sized entities	**5,218,361**	**(609,323)**	**4,609,038**
Total loans to customers	**17,392,105**	**(1,382,890)**	**16,009,215**

20. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Credit quality by types of financial assets (continued)

Analysis by credit quality of loans to customers outstanding that are collectively assessed for impairment as at 31 December 2019 is as follows:

As at 31 December 2019	Gross loans	Allowance for expected credit losses	Net loans
Loans to customers, retail			
Not past due	10,467,183	(283,548)	10,183,635
Overdue:			
up to 30 days	527,010	(55,322)	471,688
31 to 60 days	57,364	(18,906)	38,458
61 to 90 days	35,277	(21,156)	14,121
91 to 180 days	103,722	(74,747)	28,975
over 180 days	183,982	(130,194)	53,788
Total collectively assessed loans, retail	**11,374,538**	**(583,873)**	**10,790,665**
Loans to customers, small and medium sized entities			
Not past due	5,039,158	(164,881)	4,874,277
Overdue:			
up to 30 days	779,269	(70,080)	709,189
31 to 60 days	7,398	(1,834)	5,564
61 to 90 days	16,611	(9,080)	7,531
91 to 180 days	11,390	(11,390)	–
over 180 days	41,919	(34,331)	7,588
Total collectively assessed loans, small and medium sized entities	**5,895,745**	**(291,596)**	**5,604,149**
Total loans to customers	**17,270,283**	**(875,469)**	**16,394,814**

Collateral

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. In addition, recommendations are introduced on the admissibility of types of collateral and valuation parameters.

Management is monitoring the market value of collateral, requires additional collateral in accordance with the main agreement and monitors the market value of collateral obtained during the review of the availability of provision for impairment.

Impairment assessment

The Company measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

The measurement of ECL is based on probability weighted average credit loss. In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis.

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

20. RISK MANAGEMENT (CONTINUED)

Impairment assessment (continued)

In thousands of tenge	Unimpaired financial assets		Impaired financial assets		
	Gross carrying amount of assets	**Amount of allowance for expected credit losses**	**Gross carrying amount of assets**	**Amount of allowance for expected credit losses**	**31 December 2020 Total**
Cash and cash equivalents	**935,585**	**(120)**	–	–	**935,465**
Amounts due from credit institutions	**1,734,911**	**(16,872)**	–	–	**1,718,039**
Financial assets at fair value through profit or loss	**409,895**	–	–	–	**409,895**
Loans to customers	**16,123,577**	**(709,641)**	**1,268,528**	**(673,249)**	**16,009,215**

In thousands of tenge	Unimpaired financial assets		Impaired financial assets		
	Gross carrying amount of assets	**Amount of allowance for expected credit losses**	**Gross carrying amount of assets**	**Amount of allowance for expected credit losses**	**31 December 2019 Total**
Cash and cash equivalents	402,758	(107)	–	–	**402,651**
Amounts due from credit institutions	1,921,828	(13,107)	–	–	**1,908,721**
Financial assets at fair value through profit or loss	5,210	–	–	–	**5,210**
Loans to customers	16,737,584	(514,904)	532,699	(360,565)	**16,394,814**

Geographical concentration

The Assets and liabilities management committee controls over the risk associated with changes in legislation and assesses its impact on the Company.

The geographic concentration of assets and liabilities indicated in the following table:

In thousands of tenge	**Kazakhstan**	**OECD countries***	**31 December 2020 Total**
Financial assets			
Cash and cash equivalents	**935,465**	–	**935,465**
Amounts due from credit institutions	**1,718,039**	–	**1,718,039**
Financial assets at fair value through profit or loss	**409,895**	–	**409,895**
Loans to customers	**16,009,215**	–	**16,009,215**
Total financial assets	**19,072,614**	–	**19,072,614**
Financial liabilities			
Borrowings from third parties	**1,041,657**	**12,754,229**	**13,795,886**
Total financial liabilities	**1,041,657**	**12,754,229**	**13,795,886**

20. RISK MANAGEMENT (CONTINUED)

In thousands of tenge	Kazakhstan	OECD countries*	31 December 2019 Total
Financial assets			
Cash and cash equivalents	402,651	–	402,651
Amounts due from credit institutions	1,908,721	–	1,908,721
Financial assets at fair value through profit or loss	5,210	–	5,210
Loans to customers	16,394,814	–	16,394,814
Total financial assets	**18,711,396**	**–**	**18,711,396**
Financial liabilities			
Borrowings from third parties	1,255,138	13,096,607	14,351,745
Total financial liabilities	**1,255,138**	**13,096,607**	**14,351,745**

*OECD countries – members of the Organization for Economic Cooperation and Development.

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Management controls this risk by means of maturity analysis, determining the Company's strategy for the next financial period. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

20. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

In thousands of tenge	Average % rate	Less than 1 month/ on demand	Less than 3 months	3 to 12 months	1 to 5 years	31 December 2020 Total
Financial assets						
Cash and cash equivalents	4.25%	519,882	–	–	–	519,882
Amounts due from credit institutions	11.09%	–	–	1,487,939	230,100	1,718,039
Financial assets at fair value through profit or loss	8.81%	404,989	–	–	–	404,989
Loans to customers	33.48%	87,362	245,182	4,886,289	10,790,382	16,009,215
Total interest bearing financial assets		**1,012,233**	**245,182**	**6,374,228**	**11,020,482**	**18,652,125**
Cash and cash equivalents		415,583	–	–	–	415,583
Financial assets at fair value through profit or loss		–	4,906	–	–	4,906
Total non–interest bearing financial assets		**415,583**	**4,906**	**–**	**–**	**420,489**
Total financial assets		**1,427,816**	**250,088**	**6,374,228**	**11,020,482**	**19,072,614**
Financial liabilities						
Borrowings from third parties	18.83%	233,752	1,099,893	2,355,397	10,106,844	13,795,886
Total interest-bearing financial liabilities		**233,752**	**1,099,893**	**2,355,397**	**10,106,844**	**13,795,886**
Total financial liabilities		**233,752**	**1,099,893**	**2,355,397**	**10,106,844**	**13,795,886**
Difference between financial assets and financial liabilities		1,194,064	(849,805)	4,018,831	913,638	5,276,728
Difference between interest bearing financial assets and interest-bearing financial liabilities		778,481	(854,711)	4,018,831	913,638	4,856,239
Difference between interest bearing financial assets and interest-bearing financial liabilities, cumulative total		**778,481**	**(76,230)**	**3,942,601**	**4,856,239**	
Difference between interest bearing financial assets and interest-bearing financial liabilities, in % of total financial assets, cumulative total		**55%**	**(30%)**	**62%**	**44%**	

20. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

In thousands of tenge	Average % rate	Less than 1 month/ on demand	Less than 3 months	3 to 12 months	1 to 5 years	31 December 2019 Total
Financial assets						
Cash and cash equivalents	7.70%	317,068	–	–	–	317,068
Amounts due from credit institutions	13.07%	–	–	1,709,421	199,300	1,908,721
Loans to customers	34.97%	5,827	381,534	4,947,257	11,060,196	16,394,814
Total interest-bearing financial assets		**322,895**	**381,534**	**6,656,678**	**11,259,496**	**18,620,603**
Cash and cash equivalents		85,583	–	–	–	85,583
Financial assets at fair value through profit or loss		–	5,210	–	–	5,210
Total non–interest bearing financial assets		**85,583**	**5,210**	**–**	**–**	**90,793**
Total financial assets		**408,478**	**386,744**	**6,656,678**	**11,259,496**	**18,711,396**
Financial liabilities						
Borrowings from third parties	18.91%	–	2,660,647	4,764,550	6,926,548	14,351,745
Total interest-bearing financial liabilities		**–**	**2,660,647**	**4,764,550**	**6,926,548**	**14,351,745**
Total financial liabilities		**–**	**2,660,647**	**4,764,550**	**6,926,548**	**14,351,745**
Difference between financial assets and financial liabilities		408,478	(2,273,903)	1,892,128	4,332,948	4,359,651
Difference between interest bearing financial assets and interest-bearing financial liabilities		322,895	(2,279,113)	1,892,128	4,332,948	4,268,858
Difference between interest bearing financial assets and interest-bearing financial liabilities, cumulative total		**322,895**	**(1,956,218)**	**(64,090)**	**4,268,858**	
Difference between interest bearing financial assets and interest-bearing financial liabilities, in % of total financial assets, cumulative total		**1.73%**	**(10.45%)**	**(0.34%)**	**22.81%**	

20. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

The following table represents the Company’s financial liabilities as at 31 December 2020 and 2019 in the context of time left to maturity based on contractual undiscounted repayment obligations.

In thousands of tenge	**Less than 3 months**	**3 months to 1 year**	**From 1 to 5 years**	**31 December 2020 Total**
Borrowings from third parties	2,388,739	7,232,746	6,553,399	16,174,884
Total	**2,388,739**	**7,232,746**	**6,553,399**	**16,174,884**

In thousands of tenge	**Less than 3 months**	**3 months to 1 year**	**From 1 to 5 years**	**31 December 2019 Total**
Borrowings from third parties	3,377,641	5,972,825	7,887,133	17,237,599
Total	**3,377,641**	**5,972,825**	**7,887,133**	**17,237,599**

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and equity prices. The market risk is managed and monitored based on sensitivity analysis. The Company does not have significant concentration of market risk, except for foreign currency concentration.

The Company is not exposed to interest rate risk as the interest rates on financial assets and liabilities are fixed.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The tables below indicate the currencies to which the Company had significant exposure at 31 December 2020 and 2019 on its non–trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non–trading monetary assets and liabilities). All other variables are held constant.

Financial assets and liabilities of the Company in terms of currency as at 31 December 2020:

In thousands of tenge	**Tenge**	**US Dollar**	**31 December 2020**
Financial assets			
Cash and cash equivalents	728,310	207,155	935,465
Amounts due from credit institutions	1,718,039	–	1,718,039
Financial assets at fair value through profit or loss	409,895	–	409,895
Loans to customers	16,009,215	–	16,009,215
Total financial assets	**18,865,459**	**207,155**	**19,072,614**
Financial liabilities			
Borrowings from third parties	13,795,886	–	13,795,886
Total financial liabilities	**13,795,886**	**–**	**13,795,886**
Open position	**5,069,573**	**207,155**	**5,276,728**

20. RISK MANAGEMENT (CONTINUED)

Currency risk (continued)

Financial assets and liabilities of the Company in terms of currency as at 31 December 2019 were denominated in tenge.

Sensitivity analysis of the currency market

The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the tenge would have resulted in an equivalent but opposite impact.

The Company’s exposure to the risk of exchange rate fluctuations of foreign currency for the year ended 31 December are presented in the following table:

In thousands of tenge	**2020**		2019	
Currency	**Change in exchange rate in %**	**Impact on income before tax expense**	Change in exchange rate in %	Impact on income before tax expense
US Dollar	**20%**	**41,431**	20%	–
US Dollar	**–20%**	**(41,431)**	–20%	–

Prepayment risk

Prepayment risk is the risk that the Company will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Management of the Company believes that creditors will not request early repayment of loans and borrowers will not make earliest repayments, which may impact significantly on Company’s net income. This assumption is based on historical data from two previous financial years.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Control system should include effective segregation of duties, access, authorisation and reconciliation procedures, staff trainings and assessment processes, including the use of internal audit. Operational Risks Manager and Compliance Officer under Legal Department together with the Management Board are responsible for managing of operational risks inherent to the Company’s products, activities, procedures and systems. Within scope of intervention, Compliance Officer monitors the consistency and effectiveness of the control of the Risk of non–compliance in the Company.

Price risk

Price risk is the risk that the value of a financial instrument can change due to changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Company is exposed to price risk due to general and specific market fluctuations on its products.

In thousands of tenge	**2020**		**2019**	
	Increase of price on equity securities for 10%	**Increase of price on equity securities for 10%**	**Increase of price on equity securities for 10%**	**Decrease of price on equity securities for 10%**
Impact on profit or loss before corporate income tax	491	(491)	521	(521)
Total	**491**	**(491)**	**521**	**(521)**

21. CAPITAL MANAGEMENT

The Company maintains an active management of capital base to cover the risks inherent in the business. The Company's sufficiency of capital is monitored using, amongst other measures, norms established by the legislation of the Republic of Kazakhstan.

The main object of capital management for Company is to provide the Company's compliance to external requirements in terms of capital and support of high credit rate and norms of capital sufficiency required for its activity.

The Company manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. There have been no changes in the objectives, policies and processes of capital management from prior year; however the Board of Directors pays constant attention to this issue.

In accordance with the effective capital requirements, set by the NBRK, the Company must maintain capital adequacy ratio (k1) not lower than 0.1, maximum risk per borrower (k2) not greater than 0.25 and leverage ratio (k3) not greater than 10.

As at 31 December 2020 and 2019, the capital adequacy ratio exceeds the statutory minimum: k1 – 0.315 and 0.260; k2 – 0.008 and 0.0040 and k3 – 2.215 and 2.800, respectively.

22. TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Terms and conditions of transactions with related parties

Related party transactions were made on terms agreed between the parties, which are not necessarily carried out on market terms. For the year ended 31 December 2020 and 2019, the Company has not recorded any impairment of loans to customers relating to amounts owed by related parties.

Such assessment is carried out each financial year through examining the financial position of a related party and the market in which it operates.

In thousands of tenge	**31 December 2020 and for the year then ended**		31 December 2019 and for the year then ended	
	Transactions with related parties	**Total by category according to financial statements**	Transactions with related parties	Total by category according to financial statements
Loans to customers				
Key management personnel of the Company	1,420	16,009,215	4,603	16,394,814
Interest income on loans to customers				
Key management personnel of the Company	310	5,667,219	307	4,966,097

As at 31 December 2020 and 2019, key management personnel consist of the chairwoman, deputies of the chairwoman, chief accountant of the Company, total of 5 and 6 persons, respectively.

Total compensation to key management personnel included in Personnel expenses in the statement of profit or loss and other comprehensive income is 45,182 thousand tenge for the year ended 31 December 2020 (2019: 47,886 thousand tenge). The remuneration of key management personnel includes salaries and other short-term payments in accordance with the internal regulations of the Company.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2020 were approved by the Management of the Company on 31 March 2021.

24. EVENTS AFTER THE REPORTING DATE

Due to the death of Frantisek Zajic, ultimate participant, 5th February 2021 his share of participance in the Company was shared to the following:

- Frantisek Zajic – share 18.33%
- Lenka Zajicova – share 18.33%
- Natalie Zajicova – share 18.33%

On January 2021, the Company made partial repayment of principal and interest to European Bank For Reconstruction And Development in the amount of 151,864 thousand tenge and 53,255 thousand tenge, respectively.

On January and February 2021, the Company made partial repayment of principal and interest to BlueOrchard Microfinance Fund in the amount of 765,242 thousand tenge and 51,117 thousand tenge, respectively.

On January and February 2021, the Company made partial repayment of principal and interest to responsAbility SICAV (Lux) Financial Inclusion Fund in the amount of 197,382 thousand tenge and 25,987 thousand tenge, respectively.

On February 2021, the participant of the Company, MicroVest II-A, LLP, sold its 10% share of participation in charter capital to company-non-resident Paladigm Holdings Private Limited.

On March 2021, the Company made partial repayment of principal and interest to Microfinance Initiative for Asia MIFA Debt Fund SA in the amount of 217,260 thousand tenge and 64,544 thousand tenge, respectively.

On March 2021, the Company got microfinance license.

On March 2021, the Company received loan in the amount of 838,800 thousand tenge from company agRIF Cooperatief U.A.